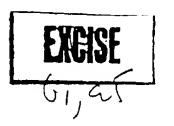
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SECRETARY'S MORNING SUMMARY FOR JUNE 15, 1989

1. CHINA: ACCUSATION OVER FANG LIZHI

BEIJING ESCALATED THE CONFRONTATION WITH THE UNITED

STATES OVER FANG LIZHI YESTERDAY WHEN IT PUBLISHED A

PEOPLE'S DAILY "COMMENTATOR ARTICLE"—THE FIRST USE OF THIS

AUTHORITATIVE MEDIA VEHICLE IN THE CURRENT CONTROVERSY.

THE TITLE, "CHINA'S INTERNAL AFFAIRS BROOK NO

INTERFERENCE," HAD BEEN USED SPARINGLY TO SIGNAL IMPORTANT

CONFLICTS OF INTEREST BETWEEN THE UNITED STATES AND CHINA

OVER TAIWAN. THE ARTICLE STATES THAT THE "SO—CALLED

'PROTECTION'" OFFERED TO FANG AND HIS WIFE IS A VIOLATION

OF CHINA'S SOVEREIGNTY AND DOES NOT CONFORM TO

BUT THE ARTICLE TAKES CARE TO LIMIT BLAME TO "CERTAIN US PERSONAGES," "A HANDFUL OF PEOPLE IN THE UNITED STATES," "SOME US MEDIA, PARTICULARLY THE VOICE OF AMERICA," AND THE "US EMBASSY IN CHINA." THE ARTICLE MAKES NO DEMANDS OR THREATS, EXPRESSING "HOPE" THAT THE UNITED STATES WILL TAKE THE OVERALL SITUATION AND LONG-TERM INTERESTS INTO ACCOUNT, "STOP INTERFERING" IN CHINA'S INTERNAL AFFAIRS, AND AVOID DOING ANYTHING TO HARM RELATIONS.

[SECRET/NOFORN]

2. PRC/HONG KONG: LASTING REPERCUSSIONS
A RESTIVENESS BORDERING ON REBELLION AMONG PRC PERSONNEL
IN HONG KONG, AND A PCSSIELE PURGE IN PRC-CONTROLLED

1) RELEASE 1) DECLASSIFY, MR Cases Only:

(2) RELEASE 1) DECLASSIFY, MR Cases Only:

(3) EXCISE (A) DECLASSIFY

(4) DECLASSIFY IN PART

(5) DELATE Non-Responsive Into 10 CLASSIFY as (1) S or (1) C OADR

INSTITUTIONS AND COMPANIES, COULD SEVERELY AFFECT
BEIJING'S ABILITY TO GAUGE PUPLIC SENTIMENT AND RESPOND
CONSTRUCTIVELY TO LOCAL OBJECTIONS. BEIJING'S CHARACTERIZATION OF CIVIL UNREST AS COUNTERREVOLUTION HAS ALARMED
HONG KONG RESIDENTS, SOME OF WHOM ARE NOW URGING AN
ELEMENT OF LOCAL CONTROL OVER THE USE OF PLA TROOPS TO
MAINTAIN ORDER.

THE CONFIDENCE OF THE ALREADY NERVOUS BUSINESS COMMUNITY HAS BEEN SHAKEN BY EVENTS ON THE MAINLAND,

BIAS

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SECRET

BIAS

WHITHER THE BASIC LAW?

HUGE DEMONSTRATIONS IN HONG KONG AGAINST MARTIAL LAW
UNDERSCORED DEFICIENCIES IN THE UK-PRC-NEGOTIATED DRAFT
BASIC LAW THAT WILL GOVERN THE COLONY AFTER 1997. LOCALS
ARE WORRIED THAT BEIJING COULD IN THE FUTURE LIMIT CIVIL
RIGHTS IN HONG KONG BY DECLARING MARTIAL LAW OR A STATE
OF EMERGENCY. THE CURRENT ROUND OF NEGOTIATIONS HAS BEEN
CANCELED, IN PART BECAUSE HONG KONG MEMBERS OF THE DRAFT
BASIC LAW COMMISSION HAVE EITHER RESIGNED OR REFUSED TO
TALK TO THE CURRENT PRC LEADERSHIP.

BIAS

HONG KONG ON THE FAULT LINE

HONG KONG'S ROLE AS "REAR BASE" OF THE DEMOCRACY MOVEMENT COULD PROVOKE A STRONG PRC RESPONSE. HONG KONG MEDIA, INCLUDING THE PRC-ALIGNED PRESS, AND LOCAL ORGANIZERS HAVE HELPED SPREAD FACTS AND RUMORS ABOUT DEVELOPMENTS IN BEIJING, RAISED FUNDS, AND PROVIDED ORGANIZATIONAL

LIAISON.

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ECONOMIC OUTLOOK

REFLECTING THE LOSS OF CONFIDENCE IN BEIJING'S ULTIMATE INTENTIONS, THE HONG KONG STOCK MARKET FELL BY ONE-THIRD DURING THE UNCERTAIN TIME THAT ENDED WITH THE BEIJING MASSACRE. THE ECLIPSE OF THE RELATIVE LIBERALS IN CHINA HAS CALLED INTO QUESTION THE ASSUMPTIONS OF THE CONTINUED OUTWARD ORIENTATION OF THE PRC'S SOUTHERN PROVINCES, ON WHICH HONG KONG'S DEVELOPMENT STRATEGY IS BASED.

STEADY ECONOMIC INTEGRATION WITH THE MAINLAND FINANCED BY LONG-TERM HONG KONG CAPITAL, SYMBOLIZED BY THE RISING PERCENTAGE [NOW 61 PERCENT] IN HONG KONG'S TOTAL EXPORTS OF RE-EXPORTS TO AND FROM THE PRC, NOW SEEMS A LESS VIABLE OPTION.

RELIANCE ON HONG KONG'S INCREASINGLY COSTLY LABOR AND DWINDLING SUPPLY OF HIGHLY TRAINED PERSONNEL IS UNLIKELY

TO PROVE A SUCCESSFUL ECONOMIC STRATEGY. A SHIFT OF OPERATIONS TO OTHER LOW-WAGE ASIAN COUNTRIES IS POSSIBLE, THOUGH IT WOULD PRESUMABLY TAKE TIME TO REPLACE THE SOME THREE MILLION CHINESE WORKERS IN GUANGDONG NOW EMPLOYED BY MORE THAN 60,000 HONG KONG COMPANIES. [SECRET/NOFORN/NOCONTRACT/ORCON/EXDIS]